No. 10-898

In The

Supreme Court of the United States

PRINCO CORPORATION AND
PRINCO AMERICA CORPORATION,

Petitioners,

v.

INTERNATIONAL TRADE COMMISSION
AND U.S. PHILIPS CORPORATION,

Respondents.

**On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit**

PETITIONERS' REPLY BRIEF

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INTRODUCTION

The Federal Circuit convened *en banc* to declare the scope of the doctrine of patent misuse for all cases and forever. It did not rest its decision on fact-bound or record-intensive factors, but rather announced sweeping new rules to govern this case and a multitude of others. As a practical matter, the decision below eviscerates the misuse defense, adding requirements found nowhere in this Court's cases, including "leveraging," prior recognition of the specific behavior as misuse, and proof of "anticompetitive effect." App. 21a-22a, 27a, 32a-33a; *see also* App. 53a (dissent).

Philips minimizes the significance of the doctrine's demise and tries to distract this Court from the tremendous importance of the legal tectonic shift that occurred below. Philips argues that the antitrust laws are adequate to address the problem of the "suppression of nascent, unproven technology," Philips Brief in Opposition ("Philips BIO") 17, 18, implying that this Court should not care if the Federal Circuit renders the patent misuse doctrine a dead letter. But this argument ignores the misuse doctrine's basis in "the policy of stimulating invention that underlies the entire patent system," *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980), and it would effectively give the Federal Circuit the authority to overrule this Court's precedents recognizing the patent misuse defense and to ignore Congress's ratification of that defense. *See id.* at 210-11, 214; Pet. 19-20.

Philips also errs in characterizing the petition as seeking a *per se* rule of misuse. *See* Philips BIO 16-

17. Princo merely asks this Court to restore the long-recognized equitable flexibility to declare misuse where a patentee has sought to "extend the limited monopoly granted by the patent," Philips BIO 13, by any method. *See Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 344 (1971) ("the method by which the monopoly is sought to be extended is immaterial"); *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957) (describing a horizontal agreement to suppress the sale of products that competed with patented products as misuse that rendered patents unenforceable).

Both Philips and the Acting Solicitor General focus primarily on the particular facts and procedural details in an effort to paint this case as an inappropriate vehicle to decide the undisputedly important question presented. Yet the Federal Circuit, despite ruling in respondents' favor, ignored those arguments when respondents advanced them below. The Federal Circuit used this case as the vehicle to redefine the scope of the defense: it granted *en banc* review and decided the case based on the assumption (which is in fact true) that Philips and Sony agreed to suppress Sony's alternative technology. The Federal Circuit's *en banc* opinion binds district courts across the country, the ITC, and all Federal Circuit panels. Respondents fail to recognize the profound impact of the Federal Circuit's decision, which imposes new and likely fatal restrictions on the defense for all future purposes. The *en banc* ruling so drastically limits the doctrine of patent misuse that a patent challenger considering this defense would be unlikely even to plead it for lack of a Rule 11 basis. This case is not just a good vehicle, but the perfect one—and most likely the only

one—to review the new rules that the Federal Circuit announced in this very case.

ARGUMENT

I. The *En Banc* Federal Circuit Recognized that It Was Redefining the Scope of Patent Misuse, and Neither Respondent Denies It

Both the majority and the dissent below acknowledged that they were addressing "the scope of the doctrine of patent misuse" itself. App. 4a, 52a. Needless to say, they had sharply differing views on this point, and the concurrence disagreed with the scope that *both* the majority and the dissent ascribed to the defense. App. 49a. In reformulating the defense, the Federal Circuit has replaced a flexible standard crafted by this Court's precedents and approved by Congress, *see* Pet. 13-16, 19-21, with a bright-line rule of its own devising—adding requirements of "leveraging" and "anticompetitive effect" and confining any application of the defense to "one of the specific ways that have been held to be" patent misuse in a prior case. App. 21a-22a, 27a, 32a-33a.

Historically, the patent misuse defense enabled a court to deny enforcement of a patent if the patentee had "attempted illegally to extend the scope of his patent monopoly," *Dawson*, 448 U.S. at 180, no matter how creatively it had contrived to do so and regardless of "the method by which the monopoly is sought to be extended," *id.* at 196-97. In particular, this Court has withheld enforcement of patents used, as here, as part of a larger scheme to suppress competing technology. *See* Pet. 15-17 (discussing *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948);

Hartford-Empire Co. v. United States, 323 U.S. 386 (1945), and other cases).

This Court has repeatedly corrected the Federal Circuit when it has substituted rigid rules of its own creation for flexible standards mandated by this Court's precedents. *See eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006) (rejecting rule that patentees were automatically entitled to injunctive relief); *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (rejecting exclusive test for declaratory judgment jurisdiction); *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (rejecting rule that method patents could never be exhausted), *KSR Int'l. Co. v. Teleflex, Inc.*, 550 U.S. 398, 401-02 (2007). (rejecting single test for proving obviousness); *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (rejecting bright-line "machine or transformation" test for patentable subject matter). It has done so to ensure that legal rules are applied in a manner consistent with their underlying rationales, and that is precisely what is at stake here. As set forth in the petition, a growing body of work by legal and economic scholars recognizes that unless the misuse doctrine is rooted in patent law policy—as it is in this Court's cases but not in the decision below—it will fail to prevent a wide range of activities that improperly broaden the grant beyond its statutory scope. Pet. 27-31.

II. Philips Fails in Papering Over the Conflicts with This Court's Precedent, While the Acting Solicitor General Does Not Even Try to Defend the Federal Circuit's Standard

Rather than substantively addressing the misuse defense, or the extensive authority presented in the petition warning of the consequences of removing this equitable tool from judges' hands, Philips inexplicably characterizes Princo's proposed restoration of the flexible doctrine that existed before the *en banc* decision as the creation of a *per se* rule of misuse. Philips BIO 16-17. In fact it is Philips that seeks a *per se* rule precluding a misuse finding even if a company has acquired a competing technology and shut it down. Philips BIO 13-14. Philips's position contravenes precedent of this Court and other courts of appeals, *see U.S. Gypsum*, 333 U.S. 364; *Compton v. Metal Prods., Inc.*, 453 F.2d 38 (4th Cir. 1971); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); it subverts the "policy of stimulating invention that underlies the entire patent system," *see Dawson*, 448 U.S. at 221; and it runs counter to the antitrust laws, *see* 3 Philip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 708c (1996) ("categorically condemn[ing]" such conduct as anticompetitive).

Philips further argues that the antitrust laws are sufficient to deter the suppression of nascent technology, implicitly conceding the ineffectiveness of the Federal Circuit's eviscerated misuse doctrine. Philips BIO 22. But the Federal Circuit is not empowered to set aside decisions of this Court, rooted in the constitutional grant and ratified by Congress. *See*

U.S. CONST., art. I, § 8, cl. 8 ("to promote the Progress of Science and the useful Arts"); Pet. 19-21. This Court has recognized patent misuse as a broader doctrine than antitrust. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140-41 (1969); *see also Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493-94 (1942) (because the inquiry was whether patentee was "thwarting the public policy underlying" the patent grant, it was not necessary to decide whether there was an antitrust violation). And the policy of "stimulating invention that underlies the entire patent system runs no less deep" in the doctrine of patent misuse than the policy of free competition. *Dawson*, 448 U.S. at 221.

While Philips ascribes "counter-productive chilling effects" to longstanding misuse doctrine, it is utterly silent in the face of substantial academic literature arguing that it is the evisceration of the misuse defense, or its restriction solely to antitrust criteria, that invites the suppression of nascent competing technology. Pet. 27-30. None of the authority Philips invokes to show the alleged dangers posed by a robust misuse defense is remotely pertinent. *See Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 414 (2004) (declining to recognize an antitrust claim based on the theory that "essential facilities" were withheld from competitors due to a strong regulatory regime governing the challenged conduct and a lack of standing[1]); *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594 (1986) (holding that the threshold to infer a

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[1] Notably, patent misuse has no standing requirement due to the broad public impact of patents and policy concerns underlying them. *Morton Salt*, 314 U.S. at 493-94.

predatory pricing conspiracy was not met where the conduct was "self-deterring" and the facts were speculative); *Broadcast Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 23-24 (1979) (rejecting a *per se* rule of antitrust liability for a joint venture where, unlike here, others were free to compete against the joint venture).

Philips's effort to defend the Federal Circuit's formulation of antitrust principles also ignores key distinctions in antitrust law and consequently misstates the applicable standard. Philips argues that use of the *Penn-Olin* standard for potential competition was appropriate because that case involved a joint venture and not a merger. Philips BIO 21-22 (citing *United States v. Penn-Olin Chem. Co.*, 378 U.S. 158 (1964)). But the standards for evaluating potential-competition mergers and potential-competition joint ventures are identical, so it is of no moment that *Penn-Olin* involved a joint venture rather than a merger. *See Penn-Olin*, 378 U.S. at 170 ("Overall, the same considerations apply to joint ventures as to mergers ....").

Moreover, antitrust law (and economic theory more generally) distinguish between joint venture *formation*, which, like a merger, is inherently likely to have procompetitive benefits and therefore should not be stopped without a showing of anticompetitive concerns, and *restraints on competition against* the joint venture, which (as the FTC observed in its amicus brief quoted at Pet. 34) require affirmative justification because of their inherently anticompetitive nature. For example, the legitimacy of the joint ventures involved in the *NCAA* and *Polygram* cases, discussed at Pet. 32, was presumed, yet re-

straints on competition with those joint ventures were nevertheless struck down as naked restraints. Thus, Philips is wrong when it echoes the *en banc* majority and asserts that agreements not to compete against a joint venture cannot constitute naked restraints of trade. Philips BIO 20; *see* App. 45a. As the Solicitor General has observed, "this Court and the courts of appeals have repeatedly invalidated anticompetitive agreements ... even when imposed by legitimate, procompetitive joint ventures." Br. of the U.S. in Opposition, *Visa U.S.A., Inc. v. United States*, No. 03-1521, at 17-18.

For his part, the Acting Solicitor General does not even try to defend the merits of the Federal Circuit's decision or the ITC's determination below. The government's effort to distract this Court from the merits likely reflects a reluctance to contradict its own prior statements to this Court—for example that "the market, rather than competitors acting in concert, should decide whether and what innovations in product quality are important," *id.* at 14. The government's misdirection ploy on the merits likely also reflects the influence of the FTC, whose analysis diverges sharply from that of the ITC – another consideration favoring certiorari. In an *amicus* brief at the *en banc* stage, the FTC described the Philips-Sony agreement as providing "that the latter would withhold its technology from the market," observed that this arrangement would be "inherently suspect" as "'an agreement not to compete in terms of price or output,'" and argued that it bore "[a]t the very least ... 'a close family resemblance'" to "'another practice that already stands convicted in the courts of consumer welfare.'" FTC *Amicus* Br. at 25-26 (quoting *NCAA* v. *Bd. of Regents*, 468 U.S. 85, 109 (1984), and

Polygram Holding, Inc. v. FTC, 416 F.3d 29, 37 (D.C. Cir. 2005)).

III. This Case Is an Appropriate Vehicle—and Likely the Only Vehicle—to Decide the Future of the Patent Misuse Defense

Contrary to respondents' suggestion, nothing unique to the facts of this case counsels against review by this Court. The issues are well-framed, and there will be no better vehicle to review the very important question presented.

A. Waiver Is a Red Herring

Avoiding the merits, the Acting Solicitor General urges denial of the petition on the basis that the issues it presents were waived before the ITC. This was also the ITC's principal argument at the *en banc* stage, yet the Federal Circuit expressly refused to affirm on that ground. App. 14a-15a. In any case, the issue is properly before this Court so long as it was passed on by the court below—especially where, as here, the issue is in "a state of evolving definition and uncertainty" and is "one of importance to the administration of federal law." *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1099 n.8 (1991); *see also Lebron v. National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995) ("even if this were a claim not raised by petitioner below, we would ordinarily feel free to address it since it was addressed by the court below").

B. The Dispute Is Not Moot and Will Not Become Moot When the Patent Expires

Respondents suggest that the petition addresses an issue of little practical importance because the last patent that forms the basis for the ITC's exclusion order will expire on May 23, 2012. Philips BIO 23-24; ITC Brief in Opposition ("ITC BIO") 31. But if certiorari is granted, this Court can easily issue a decision well before that date, which is more than a year away. Moreover, parallel patent litigation between the same parties and arising from the same conduct remains pending in the Southern District of New York, but has been stayed pursuant to 28 U.S.C. § 1659 pending resolution of this case. Both the rule of patent misuse that emerges from this litigation and its application to the present facts will have enormous continuing significance in that litigation as well.

C. The Factual Posture of the Dispute Is No Basis to Decline Review

Respondents identify two factual issues that purportedly make this case an unsuitable vehicle for review. Neither should pose any obstacle.[2]

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[2] Philips appears to concede a third factual dispute. Although Philips misleadingly characterizes the development of CD-R/RW technology as a collaboration between itself and Sony, *compare* Philips BIO 2-3 *with* Pet. 3-5, it does not deny Sony's separate development of the suppressed Lagadec technology, *see* Philips BIO 3. Moreover, Philips offers no rebuttal to its own statements to a Dutch court that the relevant patents "do *not* embody the result of joint research and development ... of Philips [and]

Although respondents assert that the non-compete agreement between Philips and Sony is merely "hypothetical," it is a written agreement that was undisputedly before the Commission. Both the *en banc* majority and the dissenters not only assumed the existence of the agreement, but analyzed its clear terms in considerable detail, resulting in 40 pages of published analysis. If Princo's characterization of the agreement were speculative or implausible, the majority could and would have reached the same result on a different basis, and presumably would not have seized on this agreement as a suitable opportunity to redefine the doctrine of patent misuse.

Respondents also point to alleged deficiencies of the suppressed Lagadec technology as an alternative to the Philips technology. Philips BIO 22-23; ITC BIO 27-29. But as noted in the panel majority opinion below, the record also includes evidence of the Lagadec patent's viability, and the evidence of its unworkability consists entirely of the testimony of Philips's hired expert. *See* App. 40b-41b n.14. In any event, neither respondent explains how the presence of this factual dispute would hinder this Court in articulating the correct misuse standard, which the lower tribunals would then apply to the facts.

In sum, neither respondent explains how a case that the Federal Circuit deemed an ideal vehicle for *en banc* consideration and plenary redefinition of the patent misuse doctrine is somehow unsuitable for this Court's review of the resulting highly substant-

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Sony" and that "[t]here is, therefore, no question of any joint Philips and Sony patents ...." *See* Pet. 35-36; App. 2m-3m.

ive holding. For the reasons explained above, it is in fact an ideal candidate for review by this Court.[3]

CONCLUSION

The Court should grant certiorari.

Respectfully submitted,

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[3] Oddly, the Acting Solicitor General argues that a case presenting an antitrust claim and patent misuse defense together would be a better vehicle for exploring the patent misuse doctrine. He advances this argument knowing that such a posture could never occur in the ITC forum—an increasingly popular one for patent infringement actions—as antitrust counterclaims are not permissible in actions under 19 U.S.C. § 1337.

Nor will such a case come from the district courts. Patent misuse is an affirmative defense to patent infringement claims, and the Federal Circuit has exclusive jurisdiction over appeals from patent infringement actions. If this decision stands, defendants will not be able to plead misuse defenses outside the narrow confines allowed by the Federal Circuit.

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